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The Public School Retirement System of Missouri

**Comprehensive
Annual
Financial
Report**

*for the Fiscal Year Ended
June 30, 1994*

The Public School Retirement System of Missouri

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 1994

Prepared by the PSRS Staff

*The Public School Retirement System of Missouri
701 W. Main Street
P.O. Box 268
Jefferson City MO 65102*

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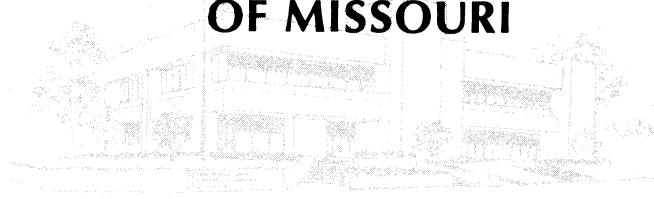
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Introductory Section

THE PUBLIC SCHOOL RETIREMENT SYSTEM OF MISSOURI



M. STEVE YOAKUM
EXECUTIVE SECRETARY

JOEL M. WALTERS
ASST. EXECUTIVE SECRETARY

PATTIE PORTERFIELD
ADMINISTRATOR

To the Board of Trustees and Members of
The Public School Retirement System of Missouri:

We are pleased to present the Comprehensive Annual Financial Report of The Public School Retirement System of Missouri for the 1993-94 fiscal year.

This report is designed to provide complete and reliable information of the financial operations of the system as a basis for determining the stewardship of the funds entrusted to PSRS by members and employers, for determining compliance with legal provisions and for making management decisions. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the management of PSRS. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner to present fairly the financial position and results of operations of the funds of PSRS.

This report consists of four sections:

- the **Introductory Section** which summarizes activities of the retirement system during 1993-94, gives information on the PSRS Board of Trustees and administration, lists consultants used by PSRS and outlines the benefits offered by PSRS;
- the **Financial Section** which contains the PSRS financial statements, the opinion letter of the independent auditor, and investment activities during the year, including investment performance;
- the **Actuarial Section** which contains the report of the Actuary, a summary of major actuarial assumptions, and actuarial statistics regarding the System; and
- the **Statistical Section** which contains various statistical data regarding the system and the operation of the system.

PLAN HISTORY AND SERVICES PROVIDED

The Public School Retirement System was established in 1946 by an act of the Missouri General Assembly. The retirement system is a public cost-sharing multiple-employer retirement system designed to provide pension benefits to the teachers of public school and junior college districts in Missouri. The system also administers survivor benefits as well as a disability retirement program.

FINANCIAL INFORMATION

The management of PSRS is responsible for designing and maintaining a system of adequate and effective internal accounting controls. These controls protect and safeguard the assets of the system and provide for the reliability of financial records.

PSRS' transactions are reported on an accrual basis of accounting for assets, liabilities, revenues and expenses. Revenues for the system are taken into account when earned. Expenses are recognized when the corresponding liabilities are incurred, regardless of the date of actual payment.

Contributions to PSRS are made with current service financed on a current basis. Prior service is amortized over a period not to exceed 30 years, with a current remaining amortization period of 22.5 years. Contributions to the system are applied using the level-percentage-of-payroll financing principle.

REVENUES

Employer/member contributions and investment income are accumulated to finance the future payment of retirement benefits. Overall 1994 revenues of approximately \$1,147 million decreased by \$38 million over the revenues of the prior year. Contributions from employers and members increased \$28 million as a result of increased total payroll. (The 1993-94 contribution rates for employers and members remained the same as 1992-93.) Investment earning increased by \$24 million. However, realized gains decreased \$90 million from the 1992-93 fiscal year. Large realized gains were recognized during the 1992-93 year because of forced divestiture of companies doing business in South Africa.

REVENUE (in millions)				
	1994	1993	INCREASE (DECREASE) AMOUNT	PERCENTAGE INCREASE (DECREASE)
Member Contributions	\$ 205.2	190.9	14.3	7.4%
Employer Contributions	200.4	186.3	14.1	7.6%
Investment Earnings	740.6	807.3	(66.7)	(8.3%)
Miscellaneous	0.6	0.7	(0.1)	(14.3%)
Total	\$ 1,146.8	1,185.2	(38.4)	(3.2%)

EXPENSES

The payment of benefits to retirees and beneficiaries, refunds to former members and administrative expenses are the primary PSRS expenses. Expenses for 1993-94 totaled approximately \$298 million, an increase of \$21 million. The increase resulted primarily from an increase in the number of benefits paid, an increase in the average new benefit paid, and cost of living increases granted to former retirees.

EXPENSES (in millions)				
	1994	1993	INCREASE (DECREASE) AMOUNT	PERCENTAGE INCREASE (DECREASE)
Benefit Payments	\$ 271.8	250.8	21.0	8.3%
Refunds	18.7	19.7	(1.0)	(5.1%)
Administrative and Actuarial Expenses	7.6	6.5	1.1	16.9%
Total	\$ 298.1	277.0	21.1	7.6%

INVESTMENTS

The assets of the retirement system are invested by professional investment advisors under the direction of the Board of Trustees. PSRS utilizes a "prudent person" investment standard which requires that all investments be made solely in the interest of plan participants as would a prudent expert familiar with such investment affairs. As of June 30, 1994 the asset allocation was 69% fixed income, 26% common stock and 5% short term investments. The rising interest rate environment of the past year coupled with PSRS' heavy exposure to high quality bonds has caused the total fund return to be slightly negative (1.04%) for the year. However, this conservative investment strategy has served the fund well with total annual return for the last 3 years at 9.98% per year and 12.14% annually since 1980.

Page 6 The Public School Retirement System of Missouri

Current contributions continued to be directed to the smaller-capitalization equity holdings during the 1993-94 year. In addition two new international equity investment managers began to be funded in January 1994. The Board of Trustees will continue to refine PSRS' investment program to receive the highest return possible at the lowest possible risk.

INDEPENDENT AUDIT

An audit of PSRS was conducted by the independent audit firm of Evers and Co. The auditor's report on the financial statements is included in the Financial Section.

FUNDING

The liability for the payment for future benefits to members of the retirement system is met through advance funding of those benefits. An adequate funding level gives members assurance that promised pension benefits are secure. PSRS strives continuously to maintain and improve the system's funding status through adequate contribution levels for increased benefits, higher investment earnings and efficient system operations.

As of June 30, 1994, PSRS held \$8,611.5 million in trust for future benefit payments. The actuarial valuation for the same date showed an accrued liability of \$9,969.8 billion. The difference between the assets and the actuarial liability is the unfunded actuarial accrued liability which is being amortized over future years. By Board policy the amortization period cannot exceed 30 years. As of June 30, 1994 the remaining amortization period was 21.5 years.

ACTUARIAL VALUATION

An experience study was performed covering the period from 1989-1994. As a result of the study, the Board of Trustees adjusted the actuarial assumptions for mortality, inflation and benefit utilization. The board also considered future changes in accounting principles which will require changing from a cost-based investment presentation to a market-value presentation and which will also require market-based actuarial assets to be used in the financial statements. In anticipation of these changes, the Board changed the method of valuing actuarial assets to a smoothed five-year average of market values.

RETIREMENT SYSTEM CHANGES

On August 28, 1993, legislation became effective which allowed pre-1983 retirees who had chosen an optional plan and whose beneficiary had died to elect to receive benefits under a pop-up option. The 1993 legislation also included various credit purchase options. House Bill 575 which became effective on May 26, 1994 increased the service retirement formula factor by almost 10%--from 2.1% to 2.3%--for those retiring after that date. The legislative packet also included a permissive increase in the contribution rate limit, two new optional retirement plans, a minimum benefit of \$800 for retirees with 25 or more years of credit and a provision allowing a residual beneficiary to be named under an optional retirement plan.

In April 1994 the Board of Trustees re-elected Laurel Cochennet as its chair for a two-year term beginning July 1, 1994. In the general Board of Trustees election in May 1994, PSRS member Veronica Hamacker was elected and NTRS member Nancy Gaines was re-elected, each for a four-year term beginning July 1, 1994. Trustee Bill Wasson was reappointed to the Board, also for a four-year term, by the State Board of Education.

David Mustoe, Executive Secretary since 1981, retired June 30, 1994 after 37 years of faithful and dedicated service to the retirement systems. M. Steve Yoakum was named by the Board of Trustees as Executive Secretary effective July 1, 1994.

MAJOR INITIATIVES

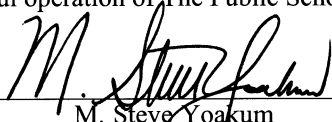
The Board of Trustees has authorized a study by the PSRS actuary which will provide a 50-year projection of our expected benefit payment and liability stream. Such a study is crucial in understanding a retirement plan's future cash flow requirements so that the most effective investment policy possible can be utilized. This projection should be available in 1995 after which a detailed asset allocation study will be performed to allow the system to utilize a optimal investment strategy consistent with the future expected benefit payments. Other initiatives include improvements in our member communication program, further automation of our internal accounting system and consideration of an image-based records management system.

PROFESSIONAL SERVICES

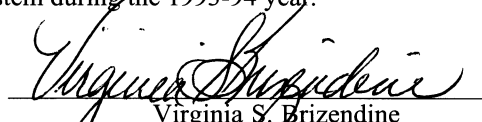
Professional consultants are employed by the Board of Trustees to provide services necessary for the efficient operation of the system. The reports of the independent auditor and actuary are included in this report. A list of PSRS consultants is given on page 10.

ACKNOWLEDGMENTS

This report reflects the combined efforts of the PSRS staff. We would like to express our gratitude to the staff, Board of Trustees, consultants and others associated with the retirement system who helped ensure the successful operation of The Public School Retirement System during the 1993-94 year.



M. Steve Yoakum
Executive Secretary



Virginia S. Brizendine
Chief Financial Officer

December 21, 1994

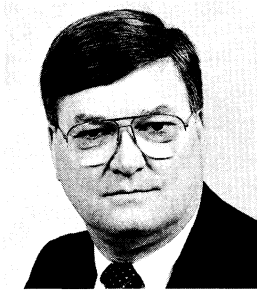
**Board of Trustees
June 30, 1994**



Laurel S. Cochennet
Chairman
Appointed Member
June 30, 1996



Mary Lou Anderson
Elected PSRS Member
June 30, 1996



James Daniels
Elected PSRS Member
June 30, 1996



Nancy Gaines
Elected NTRS Member
June 30, 1994



Theresa M. Reger
Elected PSRS Member
June 30, 1994

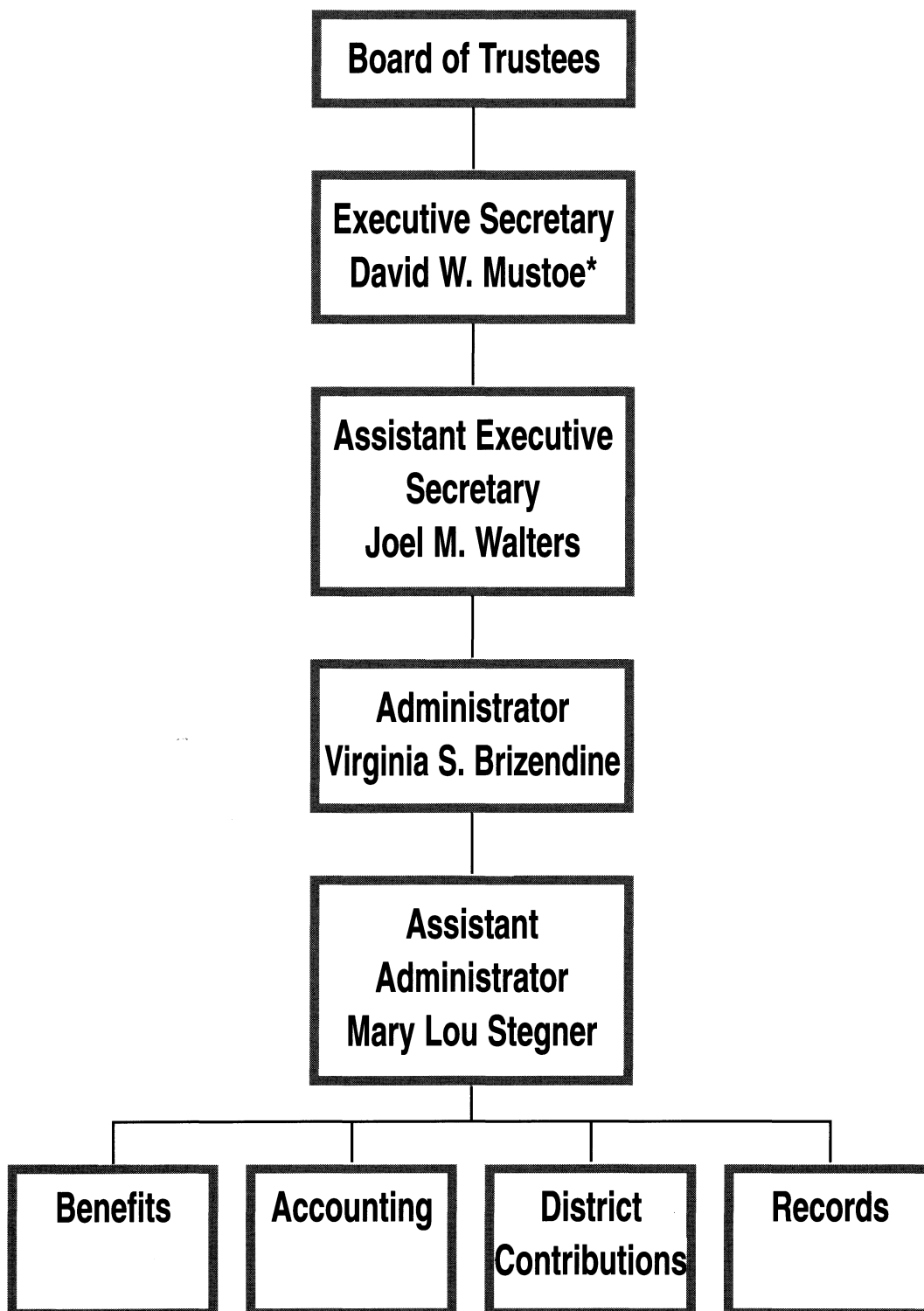


William J. Wasson
Appointed Member
June 30, 1994



Robert E. Bartman
Ex-officio
Commissioner of Education

**Organization Chart
June 30, 1994**



*** Executive Secretary effective July 1, 1994: M. Steve Yoakum**

Professional Services

ACTUARY

W. Alfred Hayes & Company
St. Louis, Missouri

AUDITOR

Evers & Company
Jefferson City, Missouri

CUSTODIAN

Boatmen's Trust Company
St. Louis, Missouri

LEGAL COUNSEL

Armstrong, Teasdale, Schlafly & Davis
Kansas City, Missouri

Hawkins Law Offices
Jefferson City, Missouri

MEDICAL ADVISOR

Dr. Robert H. Tanner
Jefferson City, Missouri

INSURANCE CONSULTANT

Charlesworth & Associates
Overland Park, Kansas

INVESTMENT CONSULTANT

DeMarche Associates
Kansas City, Missouri

INVESTMENT MANAGERS

Equity and Fixed

Boatmen's Trust Company
St. Louis, Missouri

Loomis, Sayles & Company, Inc.
Pasadena, California

Fixed Income

United Missouri Investment Counsel Service
Kansas City, Missouri

International Equities

Capital Guardian Trust Company
Atlanta, Georgia

Scudder, Stevens & Clark, Inc.
New York, New York

Small Cap Equities

Dalton, Greiner, Hartman, Maher & Co.
New York, New York

Denver Investment Advisor, Inc.
Denver, Colorado

SUMMARY PLAN DESCRIPTION

The Public School Retirement System of Missouri (PSRS) was established by an Act of the Missouri Legislature effective August 1, 1945, and is governed by Chapter 169 of the Revised Statutes of Missouri.

The plan's purpose is to provide benefits to members and their dependents at retirement or in the event of death or disability. The plan is funded on an actuarial reserve basis, which guarantees availability of funds to pay benefits as prescribed by law. The retirement system is established as an independent board created by state statute, and is not subject to direction by any state agency. Administrative expenses are paid entirely out of investment earnings.

ADMINISTRATION

The statutes provide that the administration of PSRS be vested in a seven member Board of Trustees, comprised of three elected PSRS members, one elected Non-Teacher School Employee Retirement System (NTRS) member, two persons appointed by the State Board of Education (one of whom must be a retired PSRS or NTRS member) and the State Commissioner of Education.

The Board appoints an Executive Secretary who is responsible for the employment of the retirement office staff, routine operation of the system, and advising the Board on all matters pertaining to the system.

MEMBER PARTICIPATION

ACTIVE MEMBERS are currently working under qualified employment. Employees (except employees of the state of Missouri) contribute 10 percent of their gross salary to a member contribution account. These amounts are deducted by the employing district and then forwarded to PSRS by the payroll officer and applied to the member's account. PSRS membership is automatic, regardless of position, for certificated full-time employees of public school districts in Missouri except the St. Louis and the Kansas City school districts, public junior college districts in Missouri, and the Board of Trustees of the retirement system.

Certificated part-time employees whose services would otherwise qualify them for membership in the Non-Teacher School Employee Retirement System (regular employment for at least 20 hours a week but less than full-time) may elect instead to become members of PSRS. The election must be filed with PSRS within 90 days of first eligibility for NTRS coverage after August 28, 1991.

Since July 1, 1989 member contributions have been tax-deferred for federal and state income tax purposes under IRC 414(h)(2). Contributions are not considered as income for federal or state income tax purposes until they are paid in a lump-sum refund or in monthly benefits.

Individual accounts are maintained for all contributory members with interest credited each June 30 on the previous June 30 balance. The interest rate is set annually by the Board of Trustees, and was 6 percent on June 30, 1994. Since PSRS is a defined benefit plan, benefits are based upon the member's final average salary and years of creditable service. The amount of interest credited to a member's account has no bearing on the monthly benefit amount payable at retirement.

INACTIVE MEMBERS have contributions on deposit with PSRS but are not currently working in covered employment.

MEMBER'S SURVIVORS--When a member dies before retirement, the designated beneficiary becomes eligible for a lump sum refund of the employee's contributions and interest. If the beneficiary is an eligible dependent and the member dies while in covered employment with at least two years of credit for such service, or while eligible for disability retirement benefits, monthly payments based on a percentage of the member's salary for the last full year of covered service can be elected instead of the contribution refund.

In lieu of a lump sum refund or dependent based benefits, spouses of certain deceased members and disability retirees may elect to receive monthly benefits under the Option 1 retirement plan. Benefits are payable to the spouse under the Option 1 plan when the member would have been eligible for early or normal retirement.

MEMBERSHIP TERMINATION

Membership in the System is terminated by withdrawal of contributions, unemployment in a covered position for more than four of any five consecutive years if the member is not vested, death or retirement.

EMPLOYER PARTICIPATION

The employers served by PSRS withhold members' contributions from salary payments and match employee contributions at a current rate of 10 percent of payroll. Employer contributions and investment earnings on those funds are placed in a general reserve account to pay monthly benefits to retirees and to beneficiaries of deceased members. It is the responsibility of the employers to remit contributions to the retirement system promptly and to supply PSRS with new membership records and members' contribution information. The employer also provides data needed at the time of a member's application for benefits or refund of monies upon termination of employment.

REFUND OF CONTRIBUTIONS

Account balances including interest are fully refundable upon termination of service or death. All credit and benefit rights are forfeited upon voluntary withdrawal or automatic termination. Voluntary withdrawal is initiated by the member who becomes eligible to withdraw because of unemployment. Automatic termination is a result of cessation of active service by a non-vested member for a period greater than four years. Only the money the member has contributed and accrued interest are refundable.

A member may reinstate the credit forfeited through termination of a previous membership by repayment of the money withdrawn plus interest measured from the date of withdrawal, and by serving five years after the return to covered employment.

SERVICE RETIREMENT BENEFITS

Service retirement benefits are payable to persons who have met the age and service requirements for retirement from service.

NORMAL RETIREMENT--A member may retire with full benefits when he/she attains age sixty with a minimum of five years of credit, age fifty-five with twenty-five years of credit or at any age with thirty years of credit.

EARLY RETIREMENT-- Early retirement benefits are figured under the same formula as normal retirement benefits, with an added step: an actuarially determined reduction factor is applied, based on age. The younger the retirement age, the greater the reduction will be. Early retirement eligibility starts at age fifty-five with five years of credit or at any age with twenty-five years of credit.

BENEFIT FORMULA--PSRS benefits are calculated as a percentage of final average salary. The final average salary is determined by adding the annual salaries for the 5 highest consecutive years of credit and dividing the total by 60 months. The benefit amount is calculated in this way: The final average salary multiplied by 2.3% to determine the value of a year of membership service credit. The value is then multiplied by the number of years of membership service credit. The normal regular retirement benefit cannot exceed 100 percent of the final average salary. For early retirement, there is an additional actuarial decrease in the benefit amount to allow for an extended period of retirement.

RETIREMENT OPTIONS--A retiring member may provide a monthly benefit for a beneficiary upon the retiree's death by selecting one of the optional retirement plans. If a spouse is named as beneficiary under an optional plan, the designation of a subsequent spouse may be named by the retired member only under these specific provisions: 1) the marriage is ended by the spouse's death and the election is made within 90 days of remarriage; or, 2) the marriage is ended by divorce and the divorce decree provides for the member's sole right to the retirement benefit. Otherwise, neither the plan of retirement nor the beneficiary designated under the optional retirement plan may be changed.

CREDITABLE SERVICE--There are two types of creditable service -- prior service and membership service. *Prior service credit* is granted for complete years of eligible full-time service before July 1, 1946. The credit is allowed without contributions, but it does require filing a claim and satisfying a qualifying period of PSRS service after July 1, 1946. *Membership service credit* is allowed for services after July 1, 1946 for which retirement contributions are remitted. Credit for service specifically allowed by statute may be acquired by purchase.

DISABILITY RETIREMENT BENEFITS

Disability retirement benefits are payable to persons who have met the age, service, and eligibility requirements to receive disability benefits because of an injury or illness which appears to be permanent and would prevent a member from earning a livelihood in any occupation. In most instances, the disability retirement benefit is calculated at 50 percent of the member's salary for the last full year of credit.

POST-RETIREMENT INCREASES

Post-retirement benefit increases are provided to upgrade the benefits of PSRS retirees and to provide a hedge against the erosion of benefits through inflation. An across-the-board increase was provided to all retirees in 1976. Minimum regular retirement benefit standards have been set for retirees with 20 years of credit (\$600) and 25 years of credit (\$800).

In addition, annual cost-of-living adjustments (COLAs) are provided for eligible service and disability retirees, and for surviving beneficiaries receiving payments under optional retirement plans. Cost-of-living eligibility starts the fourth January after retirement. The annual COLA limit is currently 5 percent, and is applied each January to eligible retirees and beneficiaries if the cost of living for the preceding fiscal year as shown by the Department of Labor Consumer Price Index increased 5 percent or more. Total lifetime COLAs are limited to 65 percent of the original retirement benefit.

HANDBOOK

A handbook which furnishes more complete information concerning provisions of the PSRS law and regulations can be obtained from the retirement office.

Financial Section



Evers & Company, CPA's

Certified Public Accountants and Consultants

October 19, 1994

To the Board of Trustees of
Public School Retirement System
of Missouri

Elmer L. Evers
Jerome L. Kauffman
Richard E. Elliott
Dale A. Siebeneck
Keith L. Taylor
Lynn J. Graves
D. Greg Goller

Independent Auditors' Report

We have audited the financial statements of the Public School Retirement System of Missouri as of and for the years ended June 30, 1994 and 1993, as listed in the accompanying table of contents. These financial statements are the responsibility of the Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Public School Retirement System of Missouri as of June 30, 1994 and 1993, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information on pages 22 through 23 is not a required part of the basic financial statements of the Public School Retirement System of Missouri, but is required by the Governmental Accounting Standards Board. The supplementary information included in pages 24 and 26 were presented for purposes of additional analysis and are not a required part of the basic financial statements of the Public School Retirement System of Missouri. Such information, included on pages 22 through 26, except for that portion marked "unaudited", in which we express no opinion, has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Evers & Company, CPA's

EVERS AND COMPANY
Certified Public Accountants

520 Dix Road
Jefferson City, Missouri 65109
314/635-0227
FAX 314/634-3764

Village Green Shopping Center
1021 W. Buchanan Street, Ste. 10
California, Missouri 65018
314/796-3210
FAX 314/796-3452

Route 3, Box 4230
Osage Beach, Missouri 65065
314/348-4141
FAX 314/348-0989

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BALANCE SHEET

AS OF JUNE 30, 1994 and JUNE 30, 1993

	<u>1994</u>	<u>1993</u>
ASSETS		
Cash	\$ 836,265	\$ 1,549,287
Receivables		
Contributions	60,000,000	56,200,000
Accrued Investment Income	104,009,734	96,349,047
Total Receivables	<u>\$ 164,009,734</u>	<u>\$ 152,549,047</u>
Investments		
Bonds	\$ 5,555,858,583	\$ 5,091,919,813
(market value 1994 -- \$5,775,977,930		
1993 -- \$6,020,561,602)		
Common Stock	1,973,814,327	1,445,371,597
(market value 1994 -- \$2,405,052,458		
1993 -- \$1,945,045,656)		
GNMA Mortgage Loans	455,925,128	689,290,003
(market value 1994 -- \$483,119,802		
1993 -- \$769,475,241)		
FHA/VA Mortgage Loans	285,401	668,979
(market value 1994 -- \$285,401		
1993 -- \$668,979)		
Guaranteed Income Contracts (GICs)	15,604,190	23,291,610
(market value 1994 -- \$15,604,190		
1993 -- \$23,291,610)		
Short-term Investments	<u>443,906,038</u>	<u>356,811,663</u>
Total Investments	<u>\$ 8,445,393,667</u>	<u>\$ 7,607,353,665</u>
Land and Property, net of depreciation	\$ 1,236,835	\$ 1,279,421
of \$638,790 in 1994 and \$596,204 in 1993		
Total Assets	<u><u>\$ 8,611,476,501</u></u>	<u><u>\$ 7,762,731,420</u></u>
LIABILITIES AND RESERVES		
Reserves		
Members Reserves	\$ 2,616,067,465	\$ 2,384,406,117
Reserve for Additional Deposit Annuities	2,062,240	2,202,653
Reserve for Benefits to Present Retirees	3,188,082,638	2,978,007,483
Contingent Reserve for Investments	32,988,681	32,981,249
Reserve for Operating Expenses and Benefits	2,772,275,477	2,365,133,918
Fund Balance	<u>\$ 8,611,476,501</u>	<u>\$ 7,762,731,420</u>
Total Liabilities and Reserves	<u><u>\$ 8,611,476,501</u></u>	<u><u>\$ 7,762,731,420</u></u>

The accompanying notes to the financial statements are an integral part of these statements.

**STATEMENT OF REVENUES, EXPENSES & CHANGES IN FUND BALANCE
FOR THE YEARS ENDED JUNE 30, 1994 & 1993**

	<u>1994</u>	<u>1993</u>
OPERATING REVENUES		
Members Contributions	\$ 205,229,822	\$ 190,865,451
Employers Contributions	200,421,872	186,293,050
Investment Income	\$ 740,602,148	\$ 807,357,817
Miscellaneous Interest Income	497,059	444,964
Proceeds from Special Services	2,913	1,688
Other	<u>92,887</u>	<u>243,120</u>
Total Operating Revenue	<u>\$ 1,146,846,701</u>	<u>\$ 1,185,206,090</u>
OPERATING EXPENSES		
Member Withdrawals	\$ 16,199,981	\$ 17,407,126
Member Terminations and Deaths	2,455,190	2,204,982
Administrative Expenses	7,622,551	6,556,175
Benefits Paid	271,797,793	250,815,631
Transfers to MOSERS	<u>26,104</u>	<u>58,733</u>
Total Operating Expenses	<u>\$ 298,101,619</u>	<u>\$ 277,042,647</u>
Net Operating Income	<u>\$ 848,745,082</u>	<u>\$ 908,163,443</u>
Fund Balance July 1	<u>\$ 7,762,731,419</u>	<u>\$ 6,854,567,976</u>
Fund Balance June 30	<u><u>\$ 8,611,476,501</u></u>	<u><u>\$ 7,762,731,419</u></u>

The accompanying notes to the financial statements are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--GENERAL DESCRIPTION OF THE PLAN

The Public School Retirement System of Missouri (PSRS) is a mandatory cost-sharing multiple-employer retirement system for substantially all full-time certificated employees of all public school districts in Missouri (except the school districts of St. Louis and Kansas City) and all public community colleges. The System was established by an Act of the Missouri Legislature effective August 1, 1945. Responsibility for the operation and administration of the retirement system is vested in the PSRS Board of Trustees consisting of three elected PSRS members, one elected Non-Teacher School Employee Retirement System (NTRS) member, two persons appointed by the State Board of Education (one of whom must be a retired PSRS or NTRS member) and the State Commissioner of Education.

As of June 30, 1994 PSRS had 563 contributing employers and membership consisted of 86,497 individuals as follows:

Retirees and beneficiaries currently receiving benefits		20,891
Inactive vested members not yet receiving benefits		2,992
Active members:		
Fully vested	44,756	
Non-vested	<u>15,841</u>	
Total active members		60,597
Other inactive members		<u>2,017</u>
Total		<u>86,497</u>

Reporting Entity --The Board of Trustees oversees all moneys included in the PSRS financial statements. The Board's responsibilities include designation of management, the ability to significantly influence operations, and accountability for fiscal matters. PSRS is an independent board created by state statute; it is not subject to direction by any state agency. The financial statements of PSRS are not included in the financial statements of any other organization.

In accordance with the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards Section 2100, the oversight responsibilities of PSRS have been examined to determine whether other entities should be included within the PSRS Financial Reporting Entity. Oversight responsibility is defined to include financial interdependency, designation of management, ability to significantly influence operations, accountability for fiscal matters, scope of public service and/or other special financing relationships. Based on this evaluation, PSRS has not included any other governmental units in its financial reporting entity.

Benefits --Retirement, disability and death benefits are set forth in Chapter 169.010-.140 of the Revised Statutes of Missouri and are calculated using years of service, salary and age. Benefits are vested after 5 years of creditable service. Normal retirement is available at age 60 with at least 5 years of credit, at age 55 with a minimum of 25 years of credit, or at any age with 30 years of credit. Early retirement benefits on an actuarially reduced basis are available at age 55 with at least 5 years of credit or at any age with at least 25 years of credit.

PSRS also provides for various methods of withdrawals, terminations, reinstatements, purchases for creditable service, disability, death benefits, and retirement benefit options. Additional information on benefits paid by PSRS can be found in the summary plan description prepared by the plan.

Contributions --Contributions are required by law to be paid to PSRS by the certificated employee and the employer at a rate set annually by the Board of Trustees, with a statutory maximum of 10.5% during 1993, raised to 11.5% effective May 26, 1994. The actual contribution rate for both employees and employers was 10% for both 1994 and 1993. Employee contributions are credited to membership accounts. Yearly interest is added to membership accounts at a rate set by the Board of Trustees. The rate for 1993 and 1994 was 6%.

NOTE 2--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Presentation --The accompanying financial statements have been prepared in conformity with all applicable Government Accounting Standards Board (GASB) pronouncements. PSRS uses the accrual basis of reporting which recognizes revenues when earned and expenses when the corresponding liabilities are incurred.

Cash and Cash Equivalents --The classification of Cash and Cash Equivalents includes cash and short-term investments with a maturity date within three months of the acquisition date. Cash balances represent both operating and custodian cash accounts held by the bank. All deposits held by banks are fully insured by the Federal Deposit Insurance Corporation. In addition, the following securities had been pledged to PSRS by the depository bank at June 30, 1994:

\$ 2,000,000	FHLB Discount Note, matures 8/26/94
\$13,425,000	FNMA Note, 5.40%, matures 5/25/98
\$ 700,000	US Treasury Note, 4.625%, matures 2/29/96

PSRS has an agreement with the depository bank to sweep funds in excess of a specified balance into an overnight repurchase agreement. On June 30, 1994 the overnight repurchase agreement was for \$8,400,000. The repurchase agreements are collateralized with securities held by a third party in PSRS' name.

Short-term securities in portfolios where the primary purpose is to facilitate the placement of funds in long-term investments are classified as investments.

Receivables --Receivables primarily consist of interest and dividends which are recorded when earned or declared.

Investments --Marketable securities are stated at cost or amortized cost. Mortgage loans are shown at their unpaid principal balances. Premiums and discounts on zero coupon bonds are charged to investment income over the life of the investment based on the effective interest rate method. Discounts and premiums on other fixed income securities have not been amortized since June 1990, and purchases after that date are carried at cost. Such discounts and premiums are recognized only upon sale or maturity of the related bonds. Amortization of bond premiums and discounts would not significantly affect total investment income. Purchases and sales of investments are recorded as of settlement date.

Fixed Assets --Land and building are recorded at cost in the year purchased. The building is depreciated on the straight-line method over a forty-year estimated useful life. PSRS follows a policy of expensing office equipment and other general fixed assets at the time of purchase.

Reserves:

Member Reserve --The member reserve represents the accumulation of active and terminated member deposits plus interest.

Reserve for Benefits to Present Retirees --This reserve includes transfers from the Member Reserve for retiring members and beneficiaries, and an actuarially determined transfer from the Operating Reserve to fund the system's obligation for benefit payments and cost-of-living adjustments for current retirees and beneficiaries.

Reserve for Additional Deposit Annuities --This reserve for additional deposit annuities is used to accumulate additional deposits over and above the contributions required by law.

Contingent Reserve for Investments --The contingent reserve was established to stabilize income in volatile economic times. Any net gain or loss resulting from the sale of fixed income securities other than FHA and VA mortgage loans are placed in this Reserve at the close of the fiscal year. Any net loss in this Reserve is divided by 20 and the quotient transferred as a charge against investment income. Any net gain in the Reserve is carried forward unless a transfer to Income from Securities is authorized by Board action. Net gains on sale of bonds of \$76,138,211 in 1994 and \$65,524,559 in 1993 were recorded in the Reserve for Operating Expenses and Benefits to Future Retirees by Board action.

Reserve for Operating Expenses and Benefits to Future Retirees --This reserve represents the accumulation of employer contributions and investment income which are used to fund future benefit payments, interest credited to member accounts, and administration and maintenance expenses of the system.

NOTE 3--INVESTMENTS

Authorization of Investments --PSRS funds in excess of a safe operating balance are invested by the investment agents under policies and procedures established by the Board. Section 160.040, RSMo 1978, as amended effective August 13, 1984 authorizes any investment which a prudent person acting in a like capacity and familiar with similar matters would use in the conduct of an enterprise of a like character and with like aims. Any person with fiduciary responsibility with respect to the retirement system is covered by this "prudent person" rule.

PSRS maintains a portfolio of short-term investments in order to actively manage all funds waiting to be placed in a more permanent investment. These short-term investments may include U. S. Treasury obligations, federal agency securities, commercial paper, master note agreements, money market funds, bankers acceptances, repurchase agreements, and certificates of deposit.

PSRS investment securities are categorized into these categories of credit risk:

1. Insured or registered, or securities held by PSRS or its agent in the registered nominee name of PSRS.
2. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the name of PSRS.
3. Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the name of PSRS.

At June 30, 1994, the investment balances were as follows (in thousands)

	Category			Carrying Amount	Market Value
	1	2	3		
Corporate and					
Governmental Bonds	\$ 4,789,528	0	0	\$ 4,789,528	\$ 4,763,209 *
Zero Coupon Bonds	766,331	0	0	766,331	1,012,769
Common Stock	1,973,814	0	0	1,973,814	2,405,052
GNMA Mortgage Loans	455,925	0	0	455,925	483,120
Total	<u>\$ 7,985,598</u>	<u>0</u>	<u>0</u>	<u>\$ 7,985,598</u>	<u>\$ 8,664,150</u>

Investments not subject to categorization:

Short-term Investments	\$ 443,906	\$ 443,906
FHA & VA Mortgage Loans	286	286
Guaranteed Income Contracts (GICs)	<u>15,604</u>	<u>15,604</u>
Total Investments	<u>\$ 8,445,394</u>	<u>\$ 9,123,946</u>

*Corporate bonds with an amortized cost of \$16,803 (000) do not have readily ascertainable market values and are included at cost. Market values are also not available on the FHA and VA mortgage loans. The cost value of the short-term investments and guaranteed investment contracts approximate market value.

International Investments --During the 1993-94 fiscal year, the Board authorized investments in international equities. As of June 30, 1994 PSRS had \$99,809,895 at cost invested in international securities representing 1.1% of total system investments.

Securities Lending --PSRS participates in a securities lending program administered by Boatmen's Trust Company. Certain securities held by PSRS are loaned to participating brokers to generate additional income. PSRS does not relinquish ownership of these securities. Brokers who borrow the securities provide collateral, usually in the form of cash, valued at 102% of the market value of the securities at the time of the loan. The loans are secured at all times by collateral at least equal to the market value of securities loaned. The collateral is invested on behalf of PSRS and investment income is recognized by PSRS net of investment and custodian fees and the broker rebate rate. As of June 30, 1994 PSRS had outstanding loaned investment securities having a market value of \$1,095,601,959 against which it had received collateral of \$1,135,954,851. Total securities lending income during the 1993-94 fiscal year was \$1,638,835.

NOTE 4--FUNDING STATUS AND PROGRESS

The amount shown as the pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of PSRS on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the plan.

The pension benefit obligation was computed as part of an actuarial valuation performed by W. Alfred Hayes & Company as of June 30, 1994. Significant actuarial assumptions used in the valuation include:

- a rate of return on the investment of present and future assets of 8 percent per year compounded annually;
- projected covered payroll increases of 5.5 percent annually;
- mortality in accordance with the 1983 Group Annuity Mortality Table with separate rates for males (set back 3 years) and females, (set back two years);

The total unfunded pension benefit obligation at June 30, 1994 was \$945,681,000 as follows:

Pension Benefit Obligation:

Retirees/beneficiaries currently receiving benefits	\$3,206,061,000
Terminated employees entitled to, but not yet receiving, benefits	142,657,000
Current Employees:	
Accumulated employee contributions including allocated investment income	2,496,678,000
Employer financed—vested	3,628,998,000
Employer financed—nonvested	68,218,000
Other inactive members	14,546,000
Total Pension benefit obligation	9,557,158,000
Net assets available for benefits, at cost (market=\$9,290,028,000)	8,611,477,000
Unfunded pension benefit obligation	<u>\$ 945,681,000</u>

Effective May 26, 1994 legislation became effective increasing the formula factor used to determine service retirement to 2.3%. This benefit increased the pension benefit obligation by \$523,693,000. The Board revised the assumptions used in the 1994 actuarial valuation on mortality, inflation and benefit utilization. The net effect of the changes in actuarial assumptions was to decrease the pension benefit obligation by \$133,222,000.

NOTE 5--CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

The funding policy for PSRS is to provide for periodic contributions at actuarially determined rates that are designed to accumulate sufficient assets to pay benefits when due. The contribution rate is determined using the entry age normal actuarial funding method. By board policy, unfunded actuarial accrued liabilities are amortized as a level percentage of payroll over a maximum of 30 years. The significant actuarial assumptions used to compute the actuarially determined contribution requirements are the same as those used to compute the pension benefit obligation.

As described in Note 1, employees (except employees of the State of Missouri) are required to contribute to the retirement system. The recommendation of the actuary was considered by the Board in setting the 1993-94 contribution rate at 10%. Employers included in the retirement system are required to match the percentage of payroll contributed by employees. RSMo 104.342 requires the State of Missouri to solely fund normal costs incurred because of employees of the State and to amortize the past service liability resulting from refunds made under HB610 in 1990. The contributions (net of refunds) withheld from members' salaries and remitted by employers in 1993-94 were \$196,950,982 (9.9% of payroll) and by employing districts were \$200,421,872 (10.0% of payroll). Covered payroll was \$1,996,908,000.

NOTE 6--COMMITMENTS AND CONTINGENCIES

Lynch, et al, v. Public School Retirement System, et al -- An action was brought against PSRS by several former employees of the State of Missouri and has been certified as a class action suit. These persons believe they should receive a refund of their personal contributions, full retirement benefits not withstanding any such refund, attorney's fees and costs. The complaints are grounded, in part, on prior class action lawsuits and legislation in which current employees of the State of Missouri challenged their participation as contributory members in PSRS. Due to the nature and extent of the claims, potential exposure would appear to be substantial. In the opinion of the PSRS legal counsel, the ultimate outcome of pending litigation and the amount of liability, if any, cannot be presently determined. Accordingly, no provision for any potential liability has been made in the accompanying financial statements.

Savannah R-III School District, et al, v. Public School Retirement System -- The System collects contributions and calculates benefits considering employer-paid health insurance premiums as a part of compensation. In 1988 several school districts filed suit against the system, requesting refund of the employer contributions which were attributable to those premiums. The litigation was later broadened to include members and retirees, and certified as a class action. The issue was also narrowed to include only contributions from April 1983 forward. The assertion has been made by the plaintiffs that benefits should be calculated on compensation which includes the premium amounts, even if refunds are ultimately granted as requested. The case is still pending before the circuit court and, in that most issues remain unresolved, it is not possible to calculate with any precision the fiscal impact on the system. It may be projected, however, that an adverse judgment would have a material financial impact on the system.

NOTE 7--RELATED PARTY TRANSACTIONS

PSRS provides building space, equipment and services to The Non-Teacher School Employee Retirement System of Missouri (NTRS) for a fee which is recorded as proceeds from special services. Total proceeds are \$150,000 in both 1994 and 1993.

NOTE 8--TEN-YEAR HISTORICAL TREND INFORMATION

Ten-year trend information that provides an indication of the progress made in accumulating sufficient assets to pay benefits when due is presented on pages 22 and 23 and is identified as a required supplementary information.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS (Dollars in Thousands)
(unaudited)

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides an indication of the System's funded status on a going-concern basis. Analysis of this percentage over time indicates whether the System is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the system. Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the System's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the system.

Fiscal Year	Net Assets Available for Benefits	Pension Benefit Obligation	Percentage Funded	Pension Benefit Obligation in Excess of (Less Than) Assets	Annual Covered Payroll	Unfunded Pension Benefit Obligation as a Percent of Covered Payroll
1987	\$3,749,519	\$4,650,403	80.6%	\$ 900,884	\$1,429,429	63.0%
1988	4,173,045	4,943,027	84.4%	769,982	1,446,485	53.2%
1989	4,770,072	5,583,117	85.4%	813,045	1,556,775	52.2%
1990	5,428,265	6,363,487	85.0%	935,222	1,652,719	57.9%
1991	6,103,139	7,131,401	85.6%	1,028,262	1,750,191	58.8%
1992	6,878,981	7,940,683	85.6%	1,061,702	1,809,458	58.7%
1993	7,787,379	8,506,353	91.6%	718,974	1,867,948	38.5%
1994	8,611,477	9,557,158	90.1%	945,681	1,996,908	46.1%

Information prior to June 30, 1987 not available.

TEN-YEAR HISTORICAL TREND INFORMATION

REVENUES BY SOURCE (Dollars in Thousands)
(unaudited)

Years	Employee Contributions	Employer Contributions	Investment Income	Total	Employee Contr. As a % of Covered Payroll
1987	\$ 132,112	\$ 132,112	\$ 359,545	\$ 623,769	9.2%
1988	146,849	146,849	394,988	688,686	10.2%
1989	154,633	154,633	466,788	776,054	9.9%
1990	164,087	164,087	522,124	850,298	9.9%
1991	172,914	172,914	555,852	901,680	9.9%
1992	179,604	179,604	659,834	1,019,042	9.9%
1993	190,865	186,293	808,048	1,185,206	9.8%
1994	205,230	200,422	740,602	1,146,254	9.9%

EXPENSES BY TYPE (Dollars in Thousands)
(unaudited)

FISCAL YEAR	BENEFITS AND REFUNDS PAID	ADMINISTRATIVE	TOTAL
1987	\$ 150,138	\$ 2,120	\$ 152,258
1988	266,431	2,377	268,808
1989	180,012	3,357	183,369
1990	215,429	3,850	219,279
1991	229,330	4,800	234,130
1992	245,365	5,583	250,948
1993	270,487	6,556	277,043
1994	290,479	7,623	298,102

Information before July 30, 1987 not available.

**STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FOR THE YEARS ENDED JUNE 30, 1994 & 1993**

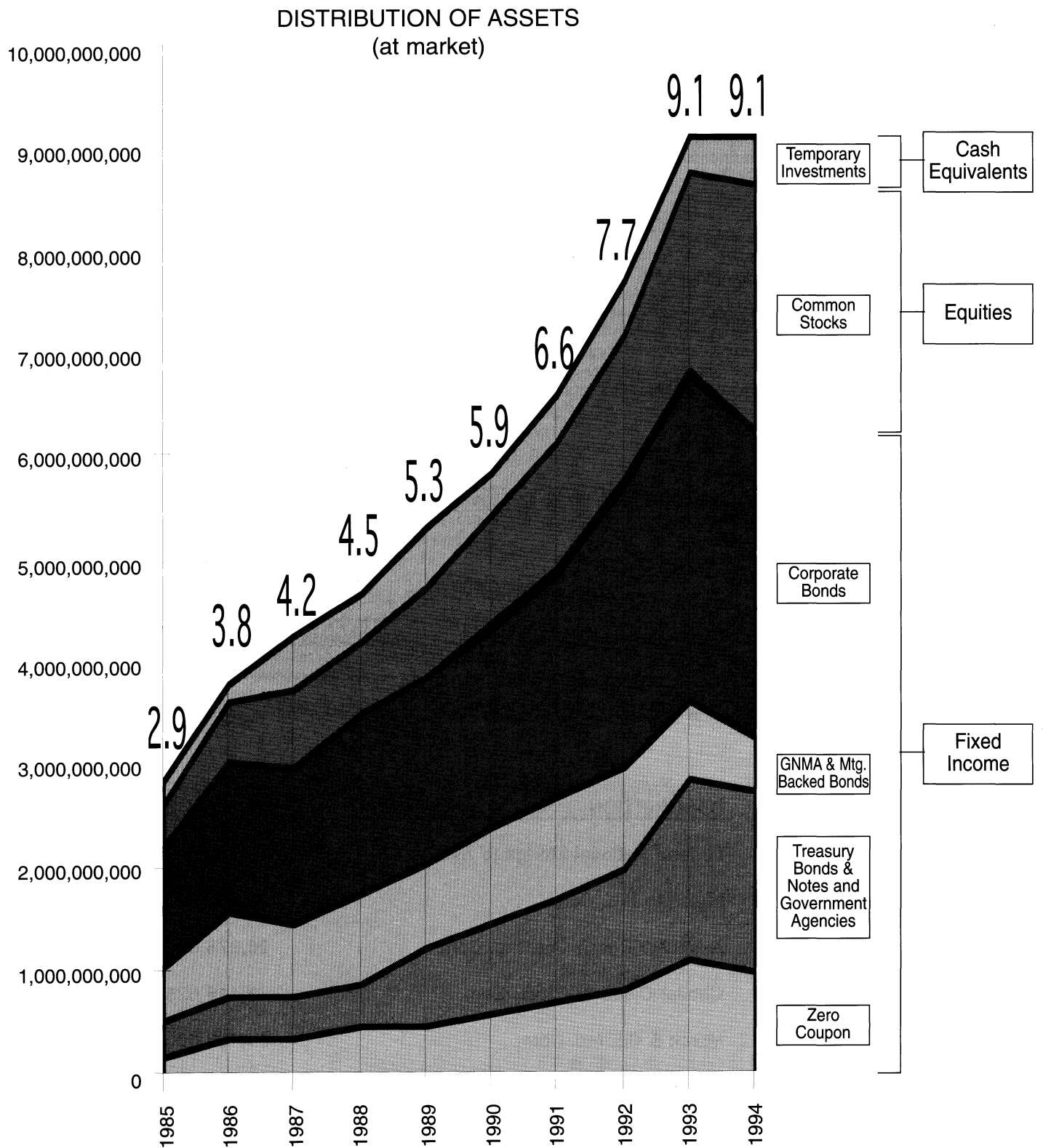
	<u>1994</u>	<u>1993</u>
RECEIPTS		
Contributions	\$ 393,822,383	\$ 368,347,207
Income from Investments	500,760,246	496,136,999
Interest-Miscellaneous	499,972	446,651
Redemptions of Investments	3,964,861,187	4,642,947,118
Gain on Sale of Investments	152,267,191	242,529,512
Reinstatements/Credit Purchases	<u>8,278,840</u>	<u>7,127,994</u>
Total Receipts	<u>\$ 5,020,489,819</u>	<u>\$ 5,757,535,481</u>
DISBURSEMENTS		
Purchase of Investments	\$ 4,722,987,254	\$ 5,480,623,407
Operating Expenses	7,579,964	6,513,588
Withdrawals	16,508,697	17,878,308
Refunds	2,667,831	2,491,230
Retirement Allowances and Benefits	<u>271,459,095</u>	<u>250,159,524</u>
Total Disbursements	<u>\$ 5,021,202,841</u>	<u>\$ 5,757,666,057</u>
Excess (Deficiency) Cash Receipts over Cash Disbursements	\$ (713,022)	\$ (130,576)
Cash Balance, Beginning of Year	<u>\$ 1,549,287</u>	<u>\$ 1,679,862</u>
Cash Balance, End of Year	<u><u>\$ 836,265</u></u>	<u><u>\$ 1,549,287</u></u>

ADMINISTRATIVE EXPENSES
FOR THE YEARS ENDED JUNE 30, 1994 AND 1993

	<u>1994</u>	<u>1993</u>
Personal Services	<u>\$ 1,272,748</u>	<u>\$ 1,218,301</u>
Professional Services		
Actuarial	\$ 102,000	\$ 70,026
Audit	10,000	12,100
Insurance Consulting	3,600	3,600
Investment	5,335,530	4,090,089
Legal	158,700	514,472
Legislative Consulting Expense	10,800	5,400
Total Professional Services	<u>\$ 5,620,630</u>	<u>\$ 4,695,687</u>
Communications		
Information and Publicity	\$ 123,401	\$ 95,206
Postage	54,470	59,533
Printing	21,485	14,682
Staff Field Expense	27,514	31,509
Telephone	43,969	41,355
Total Communications	<u>\$ 270,839</u>	<u>\$ 242,285</u>
Rentals, Office Equipment	<u>\$ 57,285</u>	<u>\$ 57,613</u>
Other		
Board of Trustees	\$ 21,973	\$ 25,910
Computer Training	6,126	4,718
Disability Application Expense	1,778	1,015
Election	31,685	-0-
Equipment Purchases	79,930	44,108
Insurance and Bonding	105,602	116,186
Maintenance and Security	10,533	8,832
Miscellaneous	13,357	6,498
Office Supplies and Expense	36,588	26,171
Utilities	46,858	62,076
Vehicles	4,033	4,189
Total of Other Expenses	<u>\$ 358,463</u>	<u>\$ 299,703</u>
Depreciation	<u>\$ 42,586</u>	<u>\$ 42,586</u>
Total Operating Expenses	<u><u>\$ 7,622,551</u></u>	<u><u>\$ 6,556,175</u></u>

**INVESTMENT INCOME STATEMENT
FOR THE YEARS ENDED JUNE 30, 1994 AND 1993**

	<u>1994</u>	<u>1993</u>
Income		
Fixed-Income Interest	\$ 392,467,853	\$ 361,437,809
Stock Dividends	56,419,303	45,120,973
FHA/VA Loan Interest	82,184	127,186
Short-Term Interest	15,755,390	17,929,482
GIC Interest	1,667,834	2,526,814
GNMA Interest	56,841,017	80,106,273
Accretion on Zero Coupon Bonds	75,352,569	66,097,686
Securities Lending	1,719,977	2,257,139
Total Income	<u>\$ 600,316,127</u>	<u>\$ 575,603,362</u>
Less: Accrued Interest Purchased (Corporate)	\$ (11,981,170)	\$ (10,870,434)
Gain(Loss) on Sale		
Fixed Income	\$ 76,138,211	\$ 65,524,559
Stocks	74,342,800	171,347,909
GNMA Loans	452,677	80,041
Zero Coupon Bonds	<u>1,333,503</u>	<u>5,660,667</u>
Total Gain(Loss) on Sale	<u>\$ 152,267,191</u>	<u>\$ 242,613,176</u>
Net Investment Income	<u><u>\$ 740,602,148</u></u>	<u><u>\$ 807,346,104</u></u>



Investment Summary
For The Year Ended June 30, 1994

Type of Investment	July 1, 1993		
	Book Value	Market Value	Purchased
Fixed Income:			
Zero Coupon Bonds	\$ 715,283,263	\$1,092,621,188	\$ 81,549,579
Treasury Bonds & Notes	539,424,951	688,617,165	51,640,206
Government Bonds	387,547,048	437,878,057	203,573,297
Municipal Bonds	69,638,019	72,605,544	51,162,946
Corporate Bonds	2,696,917,824	2,992,751,396	1,026,844,076
Asset Backet Securities	107,922,070	113,558,270	
Mortgage Backed Securities	1,264,476,641	1,393,469,784	202,972,670
FHA & VA Mortgages	668,979	668,979	
Guaranteed Investment Contracts	23,291,610	23,291,610	322,633
Total Fixed Income	<u>\$5,805,170,405</u>	<u>\$6,815,461,993</u>	<u>\$1,618,065,407</u>
Equities:			
Common Stocks	1,387,419,066	1,883,357,544	738,608,849
SAF Indexed Fund	50,000,000	56,163,500	
Preferred Stocks	6,809,361	4,370,512	5,256,283
International Equities			100,877,967
Total Equities	<u>\$1,444,228,427</u>	<u>\$1,943,891,556</u>	<u>\$ 844,743,099</u>
REIT's	1,143,170	1,154,100	3,544,086
Cash Equivalents	356,811,663	356,811,663	2,316,751,420
Total Investments	<u>\$7,607,353,665</u>	<u>\$9,117,319,312</u>	<u>\$4,783,104,012</u>

10 LARGEST EQUITY INVESTMENT HOLDINGS

<u>SHARES</u>	<u>DESCRIPTION</u>	<u>MKT. VALUE</u>
400,000	Federal National Mortgage Assn.	\$ 33,400,000
600,000	Motorola Inc. Com.	26,775,000
500,000	Anheuser Busch Cos. Inc. Com.	25,375,000
325,000	Capital Cities ABC Inc. Com.	23,115,625
720,000	Merck & Co. Inc. Com.	21,420,000
375,000	Emerson Electric Co. Com.	21,328,125
360,000	Amoco Corp. Com.	20,475,000
500,000	May Department Stores Co. Com.	19,625,000
340,000	Union Pacific Corp. Com.	19,252,500

June 30, 1994			
Sales and Redemptions	Book Value	Market Value	% Total Market
\$ (30,501,883)	\$ 766,330,960	\$1,012,769,471	11.10%
(65,119,330)	525,945,827	609,283,925	6.68%
(72,922,245)	518,198,101	525,419,905	5.76%
(30,497,919)	90,303,045	84,826,718	0.93%
(742,943,647)	2,980,818,253	2,883,140,867	31.60%
(76,066,287)	31,855,783	31,407,431	0.34%
(369,117,568)	1,098,331,742	1,112,249,415	12.19%
(383,578)	285,401	285,401	0.01%
(8,010,053)	15,604,190	15,604,190	0.17%
<u>\$(1,395,562,510)</u>	<u>\$6,027,673,302</u>	<u>\$6,274,987,323</u>	<u>68.78%</u>
(267,197,809)	1,858,830,106	2,293,231,858	25.13%
(50,000,000)			
	12,065,643	9,061,750	0.10%
(1,068,073)	99,809,895	99,691,312	1.09%
<u>\$ (318,265,882)</u>	<u>\$1,970,705,644</u>	<u>\$2,401,984,920</u>	<u>26.32%</u>
(1,578,573)	3,108,683	3,067,537	0.03%
(2,229,657,045)	443,906,038	443,906,038	4.87%
<u><u>\$(3,945,064,010)</u></u>	<u><u>\$8,445,393,667</u></u>	<u><u>\$9,123,945,818</u></u>	<u><u>100.00%</u></u>

10 LARGEST EQUITY INVESTMENT HOLDINGS

<u>SHARES</u>	<u>DESCRIPTION</u>	<u>MKT. VALUE</u>
400,000	Federal National Mortgage Assn.	\$ 33,400,000
600,000	Motorola Inc. Com.	26,775,000
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325,000	Capital Cities ABC Inc. Com.	23,115,625
720,000	Merck & Co. Inc. Com.	21,420,000
375,000	Emerson Electric Co. Com.	21,328,125
360,000	Amoco Corp. Com.	20,475,000
500,000	May Department Stores Co. Com.	19,625,000
340,000	Union Pacific Corp. Com.	19,252,500

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Actuarial Section

W. ALFRED HAYES AND COMPANY

6828 OAKLAND AVENUE
ST. LOUIS, MO 63139-3796

314/647-4777

Board of Trustees
Public School Retirement System of Missouri
701 West Main
Jefferson City, MO 65101

Actuarial Certification

We have completed the annual valuation of the assets and liabilities of the Public School Retirement System of Missouri as of June 30, 1994. Since the previous valuation legislation has been passed which increased the benefit rate per year of service from 2.1% to 2.3% of the five year average salary. This change resulted in an increase of approximately 5.9 in the actuarial accrued liability (AAL).

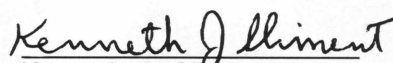
An experience study was performed for the period 1989-1994 pursuant to Missouri statutes. Following this study the actuary recommended revised actuarial assumptions which were subsequently adopted by the Board of Trustees and used for the current valuation. I believe that these assumptions in the aggregate relate very well to past experience and represent a reasonable estimate of future experience of the System. The financing objective of the System is to provide that the burden of paying retirement costs shall be shared equitably by present and succeeding generations of members and taxpayers. Equal contributions are made by the members and by the employers. A funding method based on level percentage of payroll financing is used, formally referred to as the Entry Age Normal Funding Method. A normal cost rate is calculated for each member, providing a level percentage of pay contribution rate from entry to retirement. The actuarial accrued liability (AAL) is the excess of the present value of future benefit payments over the present value of future normal costs. Differences in the past between actual and assumed experience, referred to as actuarial gains and losses, become part of the AAL. The unfunded actuarial accrued liability (UAAL) is the excess of the AAL over the assets. It is the general objective to amortize the UAAL within a 30-year period based on a level percentage of payroll.

After adjustment of the 1994 benefit increase, the contribution rate is expected to remain level until the UAAL is amortized and then decrease to the normal cost rate.

For purposes of determining the actuarial costs, assets have been valued on a five year average of adjusted market values derived from actual market values reported by the custodian and verified by the System's auditor. The liabilities have been valued based on member data which is supplied by the administrative staff of the System. We have examined this data to ensure its reasonableness, but have not audited it.

In my opinion the following schedules of valuation results fairly summarizes the actuarial condition of the Public School Retirement System of Missouri as of June 30, 1994.

Submitted by,



Kenneth J. Sliment
Fellow of the Society of Actuaries

SUMMARY OF ACTUARIAL ASSUMPTIONS EFFECTIVE JUNE 30, 1994

Mortality - 1983 Group Annuity Mortality Table, separate for males and females, with male rates set back three years and female rates set back two years in age.

Interest - 8% per annum compound, net of expenses.

Termination - Select and ultimate rates using a three year select period:

<u>Age</u>	<u>First Year</u>	<u>Second Year</u>	<u>Third Year</u>	<u>After Three Years</u>
20	14.0%	11.0%	10.0%	3.5%
30	12.0	10.0	8.0	3.1
40	10.0	9.0	6.0	2.1
50	9.0	7.0	4.0	0.8

Salary Increases - Varying by age, sample annual rates as follows:

<u>Age</u>	<u>Increase</u>	<u>Age</u>	<u>Increase</u>
20	11.0%	50	6.0%
30	8.5	60	5.5
40	7.0	65	5.5

Retirement Rates - Varying by age, sex and service. Sample rates as follows:

<u>1</u>		<u>2</u>			<u>3</u>		
<u>Age</u>	<u>Age 60 and 5 Years</u>	<u>Service</u>	<u>Below 60, After 30 Years</u>		<u>Before (1) or (2), After 55/25</u>		
			<u>Male</u>	<u>Female</u>		<u>Male</u>	<u>Female</u>
60	25%	30	30%	25%	First Year	20%	17%
62	20	31	15	20	Thereafter	15	15
65	40	32+	15	15			
67	30						
70+	100						

Asset Valuation - Based on five year average of adjusted market values.

Payroll Increase - Total covered payroll is assumed to increase 5.5% per year.
Membership is not assumed to increase.

Inflation - 5.5% per annum compound.

Actuarial Method - Entry Age Normal Funding Method is used. Gains and losses are reflected immediately in the unfunded actuarial accrued liability of the System, and amortized in the future as a level percentage of payroll.

Other - In addition to the above, other assumptions are made with respect to the incidence of disability, mortality of disabled lives, the probability that a member has a spouse, minor children and the

ACTUARIAL BALANCE SHEET (in Thousands)

June 30, 1994

Assets

Present Actuarial Value of Assets Creditable to:		
Members' Accumulated Contributions Fund (as reported by auditor)	\$ 2,616,067	
General Reserve Fund	5,995,410	
Actuarial Market Value Adjustment	540,775	
Transfer due from State of Missouri	<u>24,818</u>	
		\$ 9,177,070
Present Value of Future Contributions for:		
Normal Costs	4,668,455	
Unfunded Actuarial Accrued Liability	<u>792,689</u>	
		<u>5,461,144</u>
Total Present and Potential Assets		<u><u>\$ 14,638,214</u></u>

Liabilities

Members' Accumulated Contributions:		
Regular Contributions	\$ 2,611,666	
Reinstatement Purchases	2,254	
Tax-Sheltered Deposits	243	
Terminated Members' Deposits	<u>1,904</u>	
		\$ 2,616,067
Present Value of Benefits Now Payable to:*		
Service Retirants	\$ 3,034,208	
Disability Retirants	59,145	
Tax-Sheltered Annuitants	2,077	
Survivors	<u>110,631</u>	
		\$ 3,206,061
Present Value of Benefits to Active Members (in excess of their contributions to date)		\$ 8,783,097
Investment Contingency Reserve		<u>\$ 32,989</u>
Total Present and Potential Liabilities		<u><u>\$ 14,638,214</u></u>

*Reflects new mortality assumption adopted by Board of Trustees in October 1994

CALCULATION OF GAINS/LOSSES

For Year Ended June 30, 1994

The unfunded actuarial accrued liability is the balancing item in the actuarial balance sheet and, when compared from year to year, reflects the differences in the actual experience of the System from that which is anticipated by the actuarial assumptions. Thus, if we compare the difference between what the unfunded actuarial accrued liability would have been if all the assumptions were realized, and what it actually is, then we have a measure of the aggregate gain or loss which has been experienced. We can then analyze this aggregate figure, and estimate the values of its various of its components.

The calculation of the aggregate actuarial gain (loss) is summarized as follows (all dollar figures in thousands):

A. Calculation of Total Actuarial Gain (Loss)

(1) Unfunded Actuarial Accrued Liability (UAAL), previous year	\$ 1,169,109
(2) Normal Cost for Year	331,259
(3) Contributions for Year	(397,622)
(4) Interest at 8%:	
(a) UAAL	93,528
(b) Normal Cost	26,501
(c) Contributions	(15,905)
(d) Total	104,124
(5) Expected UAAL: (1) + (2) + (3) + (4)	1,206,870
(6) Actual UAAL	792,689
(7) Gain (Loss) for year: (5) - (6)\	414,181

B. Source of Gains and Losses

(8) Asset Gain for Year	124,388
(9) Total Actuarial Accrued Liability Gain (Loss) for year: (7) - (8)	289,793
(10) Analysis of Actuarial Accrued Liability Gain (Loss)	
(a) Legislative Changes	(569,412)
(b) Assumption Changes	780,837
(c) Experience	78,368
(d) Total	\$ 289,793

SUMMARY OF JUNE 30, 1994 ACTUARIAL VALUATION RESULTS
(In Thousands)

(1) Present Value of Future Benefits for:	
(a) Active Members	\$ 11,241,963
(b) Retired Members	3,206,061
(c) Inactive Members	152,801
(d) Other Liabilities	37,389
(e) Total	14,638,214
(2) Present Value of Future Normal Costs	4,668,455
(3) Actuarial Accrued Liability: (1) - (2)	9,969,759
(4) Actuarial Value of Assets (includes \$24,818 due from State of Missouri)	9,177,070
(5) Unfunded Actuarial Accrued Liability: (3) - (4)	792,689

* Reflects new mortality assumption adopted by the Board of Trustees in October 1994

The funding procedure for the System involves amortizing the unfunded actuarial accrued liability as a percentage of an expanding payroll (i.e., with increasing dollar contributions), in addition to payment of the normal cost contribution. The following development illustrates how this is done based on a 10.5% contribution rate:

(6) Total Contribution Rate, Member + Employer	21.00%
(7) Normal Cost Rate Due at Mid-Year	18.74%
(8) Approximate Rate Available for Unfunded Actuarial Accrued Liability: (6) - (7)	2.26%
(9) Number of Years Required to Amortize (5) with Covered Compensation Increases of 5.5% per year	21.5

SCHEDULE OF ACTIVE MEMBER VALUATION DATA
SUMMARY FOR TEN YEARS ENDED JUNE 30, 1994

Valuation Date	Number	Annual Payroll	Annual Average Pay	% Increase In Average Pay	Average Attained Age	Average Years Of Service
1985	54,463	\$ 1,217,900	\$ 22,362	6.4%	40.6	11.2
1986	54,914	1,319,801	24,034	7.5%	40.7	11.3
1987	55,798	1,429,429	25,618	6.6%	40.9	11.4
1988	54,028	1,446,485	26,773	4.5%	40.9	11.5
1989	55,198	1,556,775	28,203	5.3%	41.2	11.7
1990	55,888	1,652,719	29,572	4.9%	41.8	12.0
1991	56,908	1,750,191	30,755	4.0%	42.2	12.1
1992	57,711	1,809,458	31,354	1.9%	42.2	12.2
1993	58,493	1,867,948	31,935	1.9%	42.3	12.3
1994	60,595	1,996,908	32,955	3.2%	42.5	12.3

RETIREES ADDED TO AND REMOVED FROM RETIREMENT ROLLS
TEN YEARS ENDED June 30, 1994

		Beginning Balance	Additions	Deletions	Ending Balance
1994	Service Retirees	18,618	1,021	676	18,963
	Disability Retirees	560	35	39	556
1993	Service Retirees	17,903	1,269	554	18,618
	Disability Retirees	545	45	30	560
1992	Service Retirees	17,383	1,119	599	17,903
	Disability Retirees	555	33	43	545
1991	Service Retirees	16,879	1,067	563	17,383
	Disability Retirees	552	28	25	555
1990	Service Retirees	16,462	949	532	16,879
	Disability Retirees	543	37	28	552
1989	Service Retirees	15,911	1,064	513	16,462
	Disability Retirees	542	31	30	543
1988	Service Retirees	15,495	951	535	15,911
	Disability Retirees	556	25	39	542
1987	Service Retirees	14,965	1,022	492	15,495
	Disability Retirees	551	32	27	556
1986	Service Retirees	14,535	897	468	14,964
	Disability Retirees	549	25	23	551
1985	Service Retirees	14,195	801	462	14,534
	Disability Retirees	543	35	29	549

ACCRUED AND UNFUNDED ACCRUED ACTUARIAL LIABILITIES

SUMMARY FOR TEN YEARS ENDED JUNE 30, 1994 (IN THOUSANDS)

Inflation in the economy causes the value of the dollar to decrease over time. In such an environment the pay of the members and the amount of retirement benefits accrued will increase in dollar amounts resulting in liabilities, and perhaps unfunded liabilities, which increase in dollar amount. Looking solely at these dollar amounts can be misleading. The following table compares unfunded accrued liabilities to payroll, providing an index which clarifies understanding. The smaller the ratio of unfunded liabilities to payroll, the stronger the system. The funding progress of a system can be determined by following this ratio over a period of years. Changes in benefits, assumptions, and experience will also cause the ratio to vary over time. (It should be noted that the large improvement in 1994 is due primarily to the partial recognition of market value of assets.)

Fiscal Year	Actuarial Accrued Liability (1)	Actuarial Value of Assets (2)	Assets as % of Liability (2) / (1) (3)	Unfunded Liability: (1) - (2) (4)	Covered Annual Payroll (5)	Unfunded Liability as % of Payroll: (4) / (5) (6)
1985	\$ 3,562,571	\$ 2,855,915	80.2%	\$ 706,656	\$ 1,217,900	58.0%
1986	4,104,535	3,285,273	80.0	819,262	1,319,801	62.1
1987	4,786,560	3,779,896	79.0	1,006,664	1,429,429	70.4
1988	5,082,789	4,205,376	82.7	877,413	1,446,485	60.7
1989	5,715,707	4,782,234	83.7	933,473	1,556,775	60.0
1990	6,827,142	5,428,265	79.5	1,398,877	1,652,719	84.6
1991	7,534,308	6,103,139	81.0	1,431,169	1,750,191	81.8
1992	8,372,049	6,878,981	82.2	1,493,068	1,809,458	82.5
1993	8,956,488	7,787,379	86.9	1,169,109	1,867,948	62.6
1994	9,969,759	9,177,070	92.0	792,689	1,996,908	39.7

SHORT-TERM SOLVENCY TEST

SUMMARY FOR TEN YEARS ENDED JUNE 30, 1994 (IN THOUSANDS)

A short-term solvency test is one way to verify that a System is making progress under its funding procedures. The System's present assets are compared with: (1) active members' contributions on deposit, (2) the liabilities for future benefit payments to present retirees and beneficiaries, and (3) the employer financed portion of liabilities for service already rendered by active members. Whenever level percentage of payroll financing has been followed, generally the present assets should cover (1) and (2) and a portion of (3). The percentage of (3) that is covered will vary depending on benefit improvements, plan experience and changes in assumptions or methods.

Actuarial Accrued Liabilities for:

Year	Member Contributions (1)	Current Retirees & Beneficiaries (2)	Active & Inactive Members, Employer Financed Portion (3)	Net Assets Available for Benefits (4)	Percentage of Actuarial Liabilities Covered by Net Assets for:		
					(1)	(2)	(3)
1985	\$ 1,074,475	\$ 1,017,270	\$ 1,470,826	\$ 2,855,915	100%	100%	52.0%
1986	1,199,081	1,166,736	1,738,718	3,285,273	100	100	52.9
1987	1,333,786	1,315,631	2,137,143	3,779,896	100	100	52.9
1988	1,427,755	1,464,228	2,190,806	4,205,376	100	100	60.0
1989	1,605,331	1,688,837	2,421,539	4,782,234	100	100	61.5
1990	1,780,289	1,997,340	3,049,513	5,428,265	100	100	54.1
1991	1,983,631	2,262,801	3,287,876	6,103,139	100	100	56.5
1992	2,191,277	2,635,808	3,544,964	6,878,981	100	100	57.9
1993	2,384,406	2,980,210	3,591,872	7,787,379	100	100	67.5
1994	2,616,067	* 3,206,061	4,147,631	9,177,070	100	100	80.9

* Reflects new mortality assumption adopted by Board of Trustees in October 1994

**Statistical
Section**

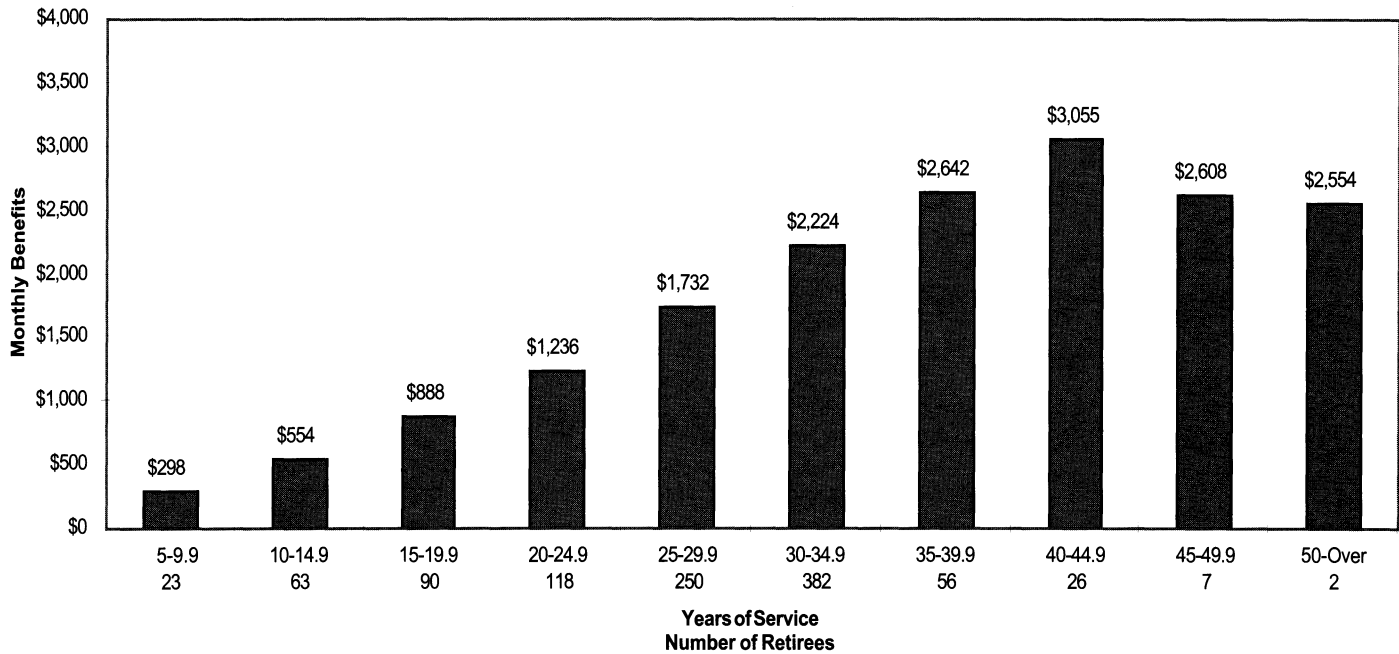
**SCHEDULE OF RETIREES BY TYPE
FOR THE TEN YEARS ENDING JUNE 30, 1994**

Year	Service Retirees	Disability Retirees	Survivor Beneficiaries
1985	14,534	549	881
1986	14,964	551	935
1987	15,495	556	973
1988	15,911	542	1,041
1989	16,462	543	1,078
1990	16,879	552	1,137
1991	17,383	555	1,196
1992	17,903	545	1,262
1993	18,618	560	1,303
1994	18,963	556	1,372

AVERAGE JULY RETIREE STATISTICS

Year Ending June 30	Regular Retirement Benefit	% Increase From Previous Year	Age	Creditable Service
1985	\$1,120.84	12	60.7	28.6
1986	\$1,280.06	12	60.9	28.7
1987	\$1,348.28	5	60.6	28.1
1988	\$1,408.57	4	60.1	28.2
1989	\$1,506.79	7	60.1	28.0
1990	\$1,617.05	7	60.0	27.1
1991	\$1,763.43	8	59.5	28.4
1992	\$1,716.78	-3	59.3	27.8
1993	\$1,854.29	7	59.0	26.8
1994	\$2,096.35	12	58.8	27.8

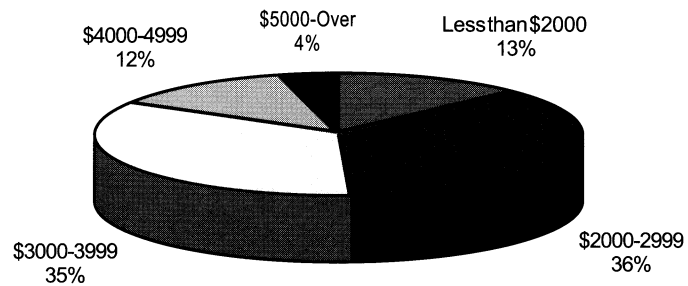
AVERAGE MONTHLY BENEFIT FOR 1993-94 RETIREES



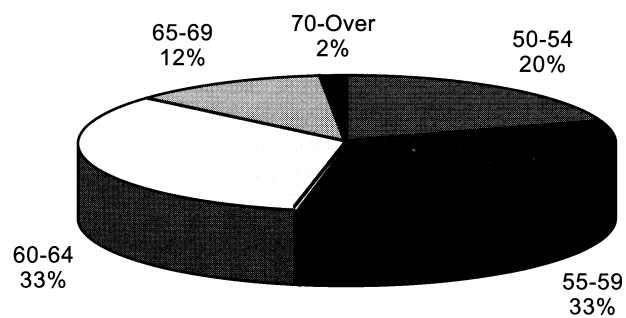
**SUMMARY OF CHANGES IN RETIREES
1993-94**

	SERVICE RETIREES			DISABILITY RETIREES		
	Male	Female	Total	Male	Female	Total
Retirees, June 30, 1993	5,547	13,071	18,618	160	400	560
Retired During Year	407	603	1,010	13	22	35
Retired After Resuming Teaching	<u>0</u>	<u>11</u>	<u>11</u>	<u>0</u>	<u>0</u>	<u>0</u>
Subtotal	5,954	13,685	19,639	173	422	595
Died During Year	154	513	667	9	29	38
Resumed Teaching During Year	<u>3</u>	<u>6</u>	<u>9</u>	<u>0</u>	<u>1</u>	<u>1</u>
Retirees, June 30, 1994	5,797	13,166	18,963	164	392	556

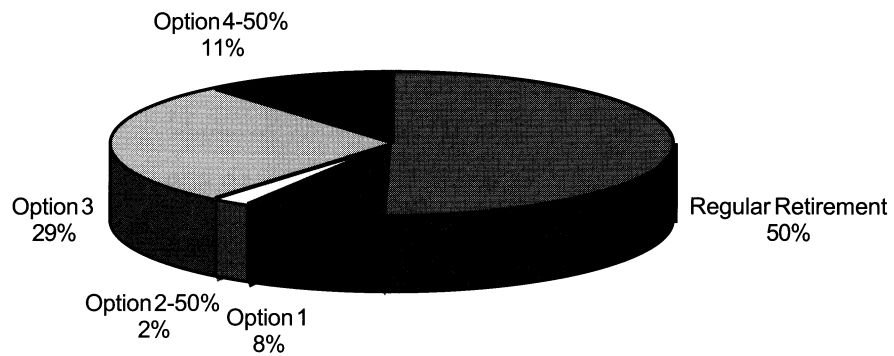
PERCENTAGE OF 1993-94 RETIREES BY FINAL AVERAGE SALARY



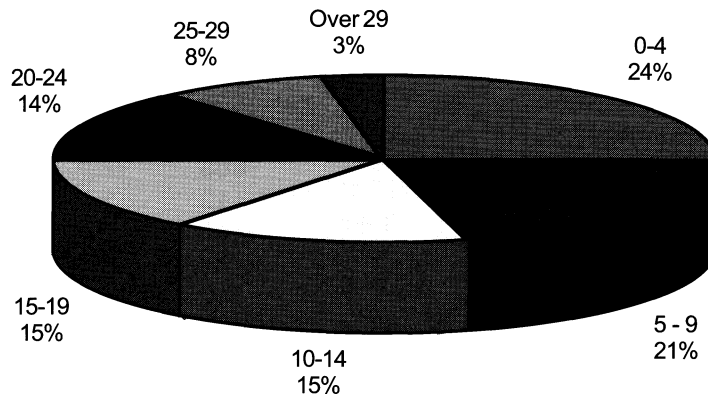
PERCENTAGE OF 1993-94 RETIREES BY AGE



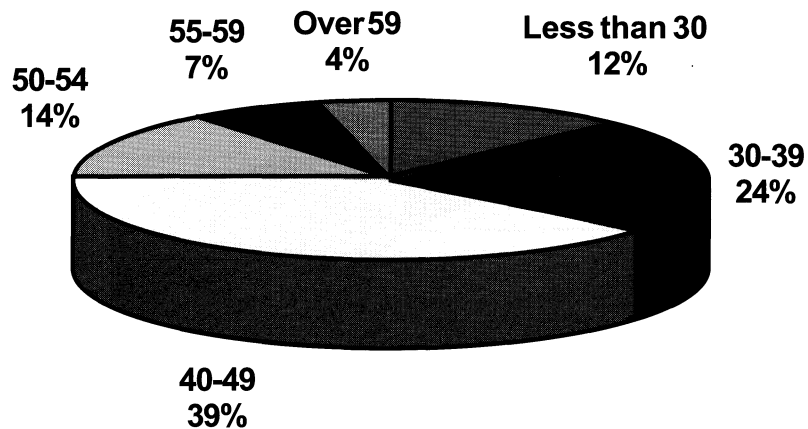
1993-94 RETIREES BY TYPE OF BENEFIT PLAN ELECTED



PERCENTAGE OF TOTAL ACTIVE MEMBERS BY YEARS OF SERVICE CREDIT



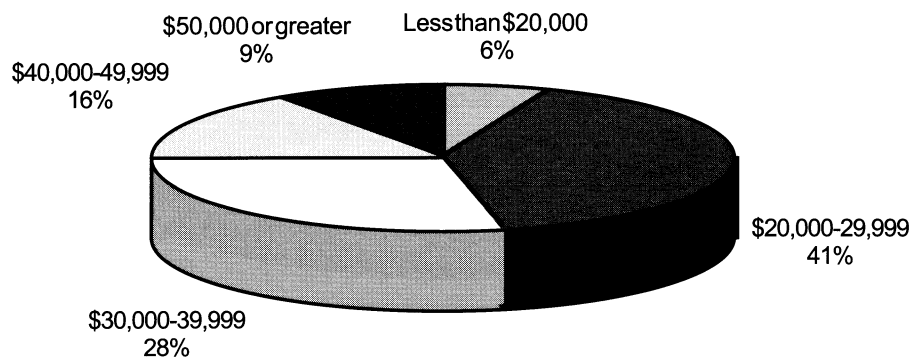
PERCENTAGE OF TOTAL ACTIVE MEMBERS BY CURRENT AGE



**SUMMARY OF CHANGES IN MEMBERSHIP
1993-94**

	<u>Male</u>	<u>Female</u>	<u>Total</u>
Membership, June 30, 1993	16,632	46,566	63,198
Additions to Membership in 1993-94			
New Memberships	1,165	4,014	5,179
Reductions in Membership 1993-94			
Service Retirements	403	607	1,010
Disability Retirements	13	22	35
Withdrawals	446	1,160	1,606
Deaths	34	40	74
Unemployment	17	51	68
Reciprocity	3	0	3
Cancellations	7	25	32
	<u>923</u>	<u>1,905</u>	<u>2,828</u>
Less Previous Terminations, Paid in 1993-94	<u>(17)</u>	<u>(40)</u>	<u>(57)</u>
Total 1993-94 Reductions	906	1,865	2,771
Net Change in Membership 1993-94	<u>259</u>	<u>2,149</u>	<u>2,408</u>
Membership, June 30, 1994	16,891	48,715	65,606

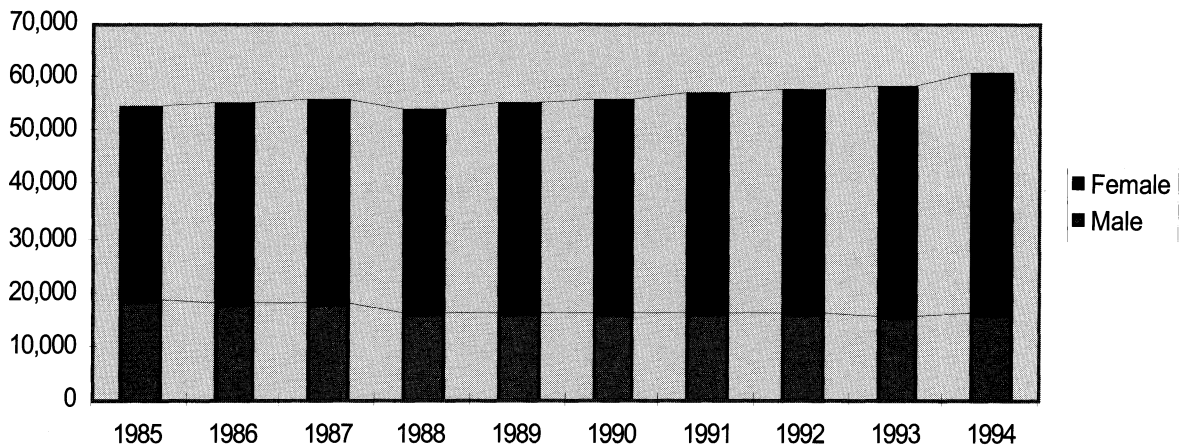
ACTIVE MEMBER SALARIES FOR 1993-94

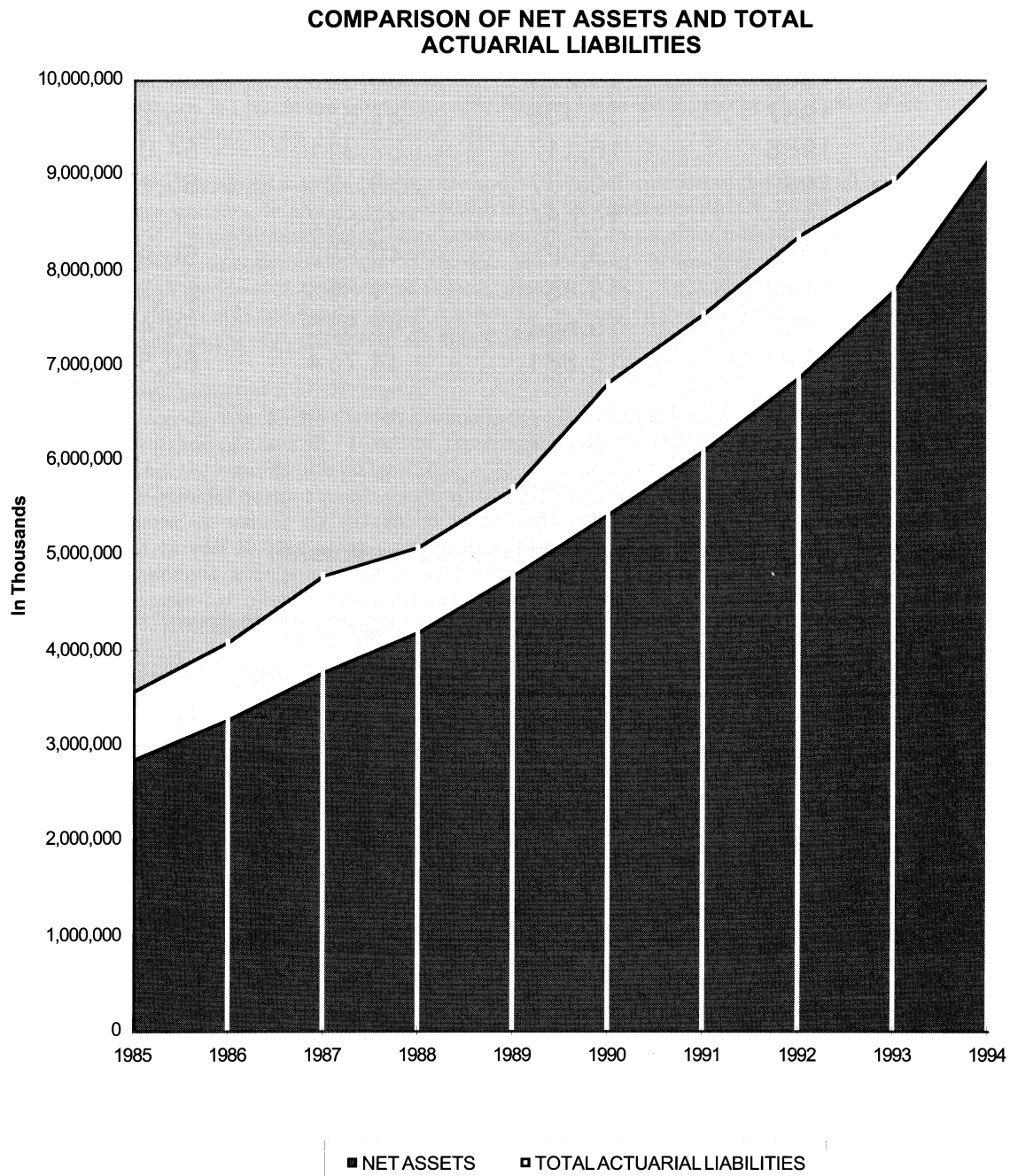


TEN-YEAR SUMMARY OF ACTIVE MEMBERSHIP

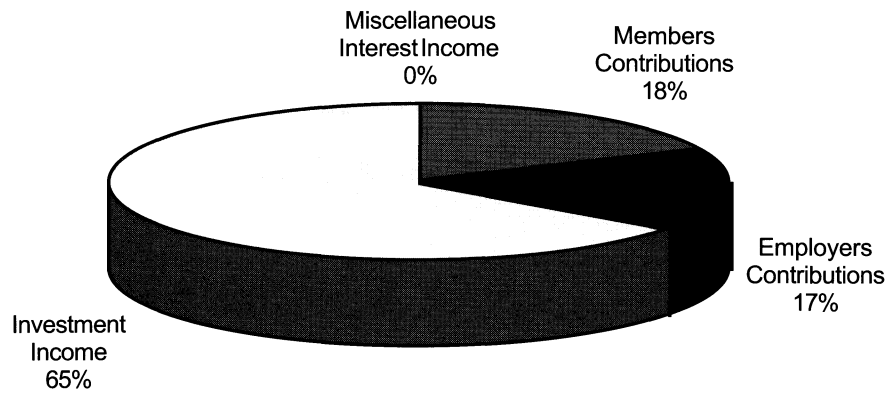
Fiscal Year	Male	Female	Total
1985	18,407	36,056	54,463
1986	18,221	36,693	54,914
1987	18,159	37,639	55,798
1988	16,117	37,911	54,028
1989	16,177	39,021	55,198
1990	16,086	39,802	55,888
1991	16,026	40,882	56,908
1992	15,858	41,853	57,711
1993	15,668	42,825	58,493
1994	15,881	44,714	60,595

Ten- Year Summary of Active Membership

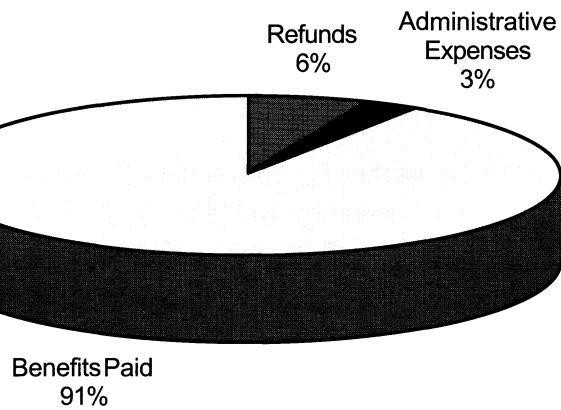




OPERATING REVENUES



OPERATING EXPENSES



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